

February 3, 1999

Games and Gimmicks to "Fund" Big Giveaways

Details of the President's FY 2000 Budget: More Spending, More Taxes, and Broken Promises

Whether viewed through a telescope or a microscope, when it comes to President Clinton's FY 2000 budget released yesterday, it looks the same: Giveaways funded by gimmicks. In this regard, it is no better in its specifics than in its broadest elements.

As pointed out earlier [see RPC paper *Clinton's Latest Budget: Honestly Phony*, February 1, 1999], the President's budget is essentially no more than a shell game wherein broad promises are made to everyone only to be kept by double-counting. This is especially true in regard to Social Security, where a phantom \$2.8 trillion is credited to the trust fund in order to artificially extend the trust fund's solvency date. As with any such scam, there is no reality behind the illusion — for this reason the date the Social Security program can't meet its obligations isn't extended by even a single day from its current 2013 deficit deadline. Such bookkeeping would land a corporate executive in jail but in this case it lands in the President's budget as the centerpiece.

Scrutiny of the White House budget's individual elements looks no better. Not surprisingly, the same games and gimmicks that allowed for the big giveaways are the ones he uses to "fund" individual programs as well. Just as Clinton claims a phony \$2.8 billion credit to Social Security in his overall 15-year projections, in the details of his 5-year budget he actually takes \$146 billion from the Social Security trust fund, according to the Senate Budget Committee, in order to fund his new spending.

In summary, despite the President's attempts at landscaping, the trees look no better than the forest.

More Spending

President Clinton proposes increasing federal spending from \$1.7 trillion this year to \$2 trillion in 2004. That amounts to a 2.96 percent average rate of growth — well ahead of the Administration's average projections for both inflation (2.3 percent) and real economic growth (2.3 percent). The budget is only able to generate its \$827.2 billion surplus over five years by having revenues grow at an even more rapid rate of 3.69 percent. Spending highlights include:

- Overall spending increases amount to \$387.1 billion (2000-2004): \$74.7 billion in new discretionary spending, \$54.4 billion in new mandatory and revenue provisions, and \$258 billion in spending, assuming Clinton's Social Security reform framework.

- Although the President claims to offset the \$74.7 billion in new discretionary spending, none of his claimed offsets — consisting of tax increases and claimed mandatory savings — are legally allowable under the Budget Act.
- The President also claims to offset \$54.4 billion in new mandatory spending, but in this case his offsets are unlikely to materialize — for instance a proposal to take a share of states' settlement with the tobacco companies, cuts that would endanger the private student loan program, and \$33.4 billion in tax increases.
- Discretionary caps: The budget completely disregards the agreed-to discretionary spending caps, breaching them by \$111.5 billion over 2000-2002 (caps expire after 2002) — \$18 billion next year, \$39 billion in 2001, and \$55 billion in 2002. Clinton's budget thus sets up the potential for future end-of-the-year funding problems when these unrealistic expectations cannot be met.
- Surplus: Not surprisingly, with all this new spending the Administration's surplus projections are well below CBO's projection of a \$934 billion surplus (2000-2004). Even if we accept all the Administration's claimed spending offsets, their claimed surplus is just \$676.6 billion.
- Debt: Also not surprisingly, according to SBC, the Clinton budget will reduce the debt held by the public \$364 billion less than would occur by 2004 if he did not include his Social Security reform framework.

More Taxes

Clinton's proposed tax hikes in the FY 2000 budget maintain his consistent record on taxes: In seven budgets, he has never once proposed a net tax cut for the American people. Under the latest Clinton budget, federal revenues would increase from \$1.806 trillion in 1999 to \$2.166 trillion in 2004. As said earlier, the average annual tax revenue growth rate is 3.69 percent from 1999 to 2004.

- Despite having a \$4.5 trillion surplus over the next 15 years, President Clinton has not proposed a single significant tax cut for today's taxpayers in his submitted budget.
- Additionally, although President Clinton listed a \$500-billion proposal for his USA retirement accounts in his State of the Union address, no attempt is made to accommodate it in his submitted budget figures.
- Instead, what Clinton proposes in his budget is a net tax hike of \$45 billion and another \$20 billion in new user fees. In addition, Clinton also proposes \$16 billion be taken from the states as result of their settlement with the tobacco companies — a kind of windfall profits tax on the states.
- According to the House Ways and Means Committee, the budget contains 81 tax hikes — 35 being holdovers that were rejected last year by Congress.

billion) of a penny on the dollar for the projected \$4.5 trillion surplus and an overall one of 1.8 cents for the overall net revenue increases (\$81 billion).

- Clinton's overall tax increases amount to \$82 billion. This gross figure is partially offset by \$36.2 billion in proposed targeted tax cuts. Even by Clinton's own calculation, his proposed tax cut amounts to less than a penny on the dollar of his \$4.5 trillion surplus.

Broken Promises

In mid-December, Clinton kicked off a promise-a-day program of highlighting new initiatives designed to pander to every conceivable constituency. This program culminated in his promise-a-minute State of the Union speech when he literally made 77 promises in his 77 minute speech. However when it came to delivering these promises, many were left out of the budget — even a budget replete with games and gimmicks designed to allow more than it could deliver. Chief among those broken promises:

- **Social Security reform:** The President issued the call last year to "Save Social Security first." This year he has promised that he could miraculously extend the trust fund's life by 23 years. Yet there is still not a single substantive proposal for reform included anywhere in the budget, nor does it include anything to extend the date the Social Security program can't meet its obligations by even a single day from its current 2013 deficit deadline.
- **Social Security earnings test repeal:** Another presidential promise, another one not addressed in his budget.
- **Medicare trust fund's increased solvency:** President Clinton promised in the SOTU to direct \$700 billion in new revenues from the general fund to the Medicare trust fund and thus increase its solvency by ten additional years. As bad a policy proposal as this is (by undercutting the impetus for needed reforms and beginning to move the program from self-sufficiency to subsidization — i.e., welfare), not one word about this was included in the President's budget.
- **Medicare benefits:** Once again, Clinton promised in the SOTU to increase Medicare benefits — most ostensibly an expensive prescription drug proposal. And once again in his budget, he failed to include it.
- **USA retirement accounts:** Clinton promised a \$480 billion initiative for establishing retirement savings accounts. While a bad policy (because it would not only not address Social Security's problems, which should be the first retirement reform, it would create another government program when we shortly will be unable to afford one), it too was left out of the President's submitted budget totals.
- **Defense:** Despite a widely acknowledged need and press reports that Clinton was going to give Defense a \$112 billion increase, its outlays will actually fall \$4 billion in 2000. In the outyears, only 3/4ths of the \$112 billion — \$82.6 billion — in promised outlay increases shows up in the FY 2000 budget. Worse still, just 1/3rd of this \$82.6 billion — \$27.9 billion — is actually funded up front. The rest is made contingent on Social Security reform — reform the President also didn't include in his budget.

- Honest bookkeeping: The President has claimed to be protecting Social Security, yet as we have seen, his budget not only resorts to double-counting to claim additional Social Security trust fund solvency, it even spends \$146 billion of the Social Security surplus over the next five years, if one assumes his Social Security reform framework.
 - This figure would be even larger were it not for the profligate use of “plugs” that claim unspecified offsets for spending that would further drain the Social Security trust fund.
 - According to the Senate Budget Committee, these “plugs” are “in the neighborhood of \$50 billion” in 2001 and 2002 and then range from “around \$30 billion to around \$40 billion each year after.”

More Spending, More Taxes, Broken Promises — Same Old Story

Since we have seen this in the Clinton administration’s previous six budgets, perhaps it should not come as surprise now that once again their fiscal blueprint comprises more spending, more taxes, and more broken promises. Still, the sheer level of this year’s effort is staggering. With a \$4.5 trillion surplus, America had the right to expect Clinton to be able to cut taxes, keep his promises, and adhere to the spending totals he agreed to just a couple of years ago. Not only did Clinton fail on all three counts — he sought increases on all three counts.

Whether viewed overall or in its particulars — as forest or trees — we are left with the same conclusion. With a \$4.5 trillion surplus, Clinton’s failure to control spending, cut taxes, and keep promises is not due to a lack of means. It is due to a lack of will.

Staff Contact: Dr. J.T. Young, 224-2946